

Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

Citadel Premium Income Fund

Series S-1 Income Fund

Income & Equity Index Participation Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

CGF Resource 2006 Flow-Through Limited Partnership

Financial Preferred Securities Corporation

Series S-1 Income Fund

Series S-1 Income Fund

Series S-1 Income Fund (the "Fund" or "Series S-1") is a closed-end investment trust which became listed on the Toronto Stock Exchange on June 12, 2003. The Fund has a termination date of December 31, 2009, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

During 2006, Series S-1 paid total cash distributions of \$0.90 per unit based on monthly distributions of \$0.075 per unit which was consistent with 2005.

INVESTMENT HIGHLIGHTS:

	2006	2005	2004
Net Asset Value per Unit ⁽¹⁾	\$ 10.04	\$ 11.17	\$ 11.14
Market Price per Unit ⁽¹⁾	\$ 8.80	\$ 10.53	\$ 11.40
Trading Premium (Discount)	(12.4%)	(5.7%)	2.3%
Cash Distributions per Unit	\$ 0.90	\$ 0.90	\$ 0.90
Trailing Yield ⁽²⁾	10.2%	8.5%	7.9%
Market Capitalization (\$ millions)	\$ 293.8	\$ 364.5	\$ 398.9

⁽¹⁾ Net asset value and market price per unit are based on year end values.

⁽²⁾ Trailing yield is based on the last 12 months cash distributions declared expressed as a percentage of market price.

Management Report of Fund Performance

(March 20, 2007)

This annual report for the years ended December 31, 2006 and 2005 includes both the management report of fund performance, containing financial highlights, and the audited financial statements of Series S-1 Income Fund (the "Fund" or "Series S-1").

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at www.citadelfunds.com to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

INVESTMENT OBJECTIVES AND STRATEGIES

Series S-1's investment objectives are to provide investors with highly stable and sustainable monthly cash distributions derived from an actively managed and diversified portfolio of income producing investments consisting, in varying amounts, of publicly traded units of Canadian income funds and Canadian high yielding investment grade debt, while at all times maintaining an SR-1 stability rating as provided by Standard & Poor's.

RISK

There are a number of risks associated with an investment in Series S-1. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These

risks include the effects of fluctuations in commodity prices, foreign currency conversion rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

On October 31, 2006 the Federal Minister of Finance (the "Finance Minister") announced a proposal (the "Trust Taxation Plan") to apply a tax at the trust/partnership level on distributions of certain income from publicly traded mutual fund trusts and partnerships at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to the unitholders. The Finance Minister said existing trusts and partnerships would have a four-year transition period and generally would not be subject to the new rules until 2011. Until such rules are released in legislative form and passed into law it is uncertain what the impact of such rules will be to Canadian income funds (including publicly traded partnerships) and their investors. However, assuming the Trust Taxation Plan is ultimately enacted in the form proposed, those Canadian income fund issuers in which the Trust invests (other than real estate investment trusts that meet prescribed conditions under the new rules) will be subject to the Trust Taxation Plan commencing in 2011 and the implementation of such proposal would be expected to result in adverse tax consequences to such Canadian income funds and to adversely impact cash distributions from such Canadian income funds to the Trust. Based on the composition of the Trust's Portfolio, it is not expected that the Trust itself would be considered a "specified investment flow-through" under the Trust Taxation Plan, and therefore it is expected that the Trust itself will continue not to be directly liable for any material amount of income tax.

RESULTS OF OPERATIONS

Series S-1's net assets declined from \$386.5 million at December 31, 2005 to \$335.1 million at December 31, 2006 due primarily to portfolio devaluations created by the Government's Trust Taxation Plan. On a per unit basis, the Fund's net asset value ended the year at \$10.04 per unit down from \$11.17 per unit at the end of 2005.

The Fund's market price also declined over the year, closing on December 31, 2006 at \$8.80 per unit, down from \$10.53 per unit at the end of 2005. Series S-1's change in unit price plus monthly distributions produced a negative 8.7% total return for 2006, while the Fund generated a negative 1.8% total return on a net asset value basis. By comparison, the S&P/TSX Income Trust Index declined by 2.8% over the same period.

Total revenue for 2006 was \$34.1 million compared to \$33.3 million in 2005 as the Fund maintained lower average cash balances during 2006. Administrative and investment manager fees, along with trailer fees, decreased slightly to \$4.4 million and \$1.5 million respectively from \$4.6 million and \$1.6 million in 2005 as the average net asset value fell in 2006. Both administrative and investment manager fees and trailer fees are calculated in reference to the Fund's net asset value. Prior to June 1, 2006, administrative and investment manager fees were payable in trust units of the Fund. After this date, the Fund commenced paying these fees in cash as outlined in the Fund's declaration of trust. Total general and administration costs, including other expenses, were \$0.52 million compared to \$0.59 million in 2005. After expenses, the Fund generated net investment income of \$27.8 million or \$0.81 per unit for 2006 compared to \$26.6 million or \$0.76 per unit for 2005.

The Fund realized significant gains on dispositions of ARC Energy Trust, Petrofund Energy Trust, CML Healthcare Income Fund and Noranda Income Fund however these gains were offset by large losses realized on Clean Power Income Fund, Clearwater Seafoods Income Fund, Superior Plus Income Fund, Countryside Power Income Fund, Harvest Energy Trust and Retirement Residences Reit resulting in net realized losses of \$0.5 million during 2006 compared to net realized gains of \$9.7 million in 2005. The Fund also experienced \$35.7 million of unrealized losses in 2006 (2005 - \$4.6 million unrealized losses) which contributed to the decline in total results of operations from \$31.6 million or \$0.91 per unit in 2005 to negative \$8.4 million or negative \$0.25 per unit in 2006.

During 2006, Series S-1 paid monthly cash distributions of \$0.075 per unit for a total of \$30.6 million or \$0.90 per unit compared to \$31.4 million or \$0.90 per unit in 2005.

The Fund's portfolio mix has remained materially consistent despite some modest changes to the asset mix during the year. Overall, the Fund enhanced its exposure to real estate investment trusts, power generation investments and cash while reducing its oil & gas royalty trust position.

TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

During 2006, the Fund's market price traded at an average discount to its net asset value per unit of 6.8% compared to an average discount of 4.7% in 2005. With the widening discount, the Fund repurchased 1,522,300 units at an average cost of \$10.07 in 2006 under its mandatory repurchase program compared to 907,900 units at an average cost of \$10.31 per unit in 2005. Under the Fund's mandatory repurchase program, the Fund is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%, subject to 1.25% per quarter of the units outstanding.

STABILITY RATING

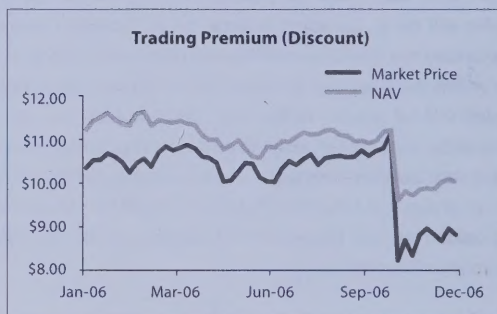
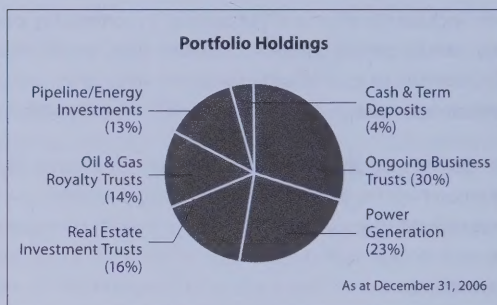
Standard & Poor's provides a rating scale to assist investors in understanding the risk profile of an investment in an income fund. Standard & Poor's Stability Ratings characterize the stability of the cash distribution stream of an income fund in terms of variability and sustainability in the medium to longer term. The rating continuum ranges from SR-1 for the most stable to SR-7 for the least stable. During 2006, the Fund maintained its SR-1 stability rating and expects to maintain the rating for the foreseeable future.

RECENT DEVELOPMENTS

Throughout 2006, the trust sector experienced pronounced periods of volatility and sub-sector performance variance in addition to the valuation destruction created by the Government's Trust Taxation Plan. Despite the current unsettled market conditions, the Fund's investment manager feels all negative news has been priced into the trust sector and as a result is optimistic about the opportunities to generate strong returns for the Fund in 2007. Based upon the Fund's current portfolio and analysts' estimates of distributions, Series S-1 expects to maintain its SR-1 stability rating and its monthly distribution rate of \$0.075 per unit for 2007.

Investment Fund Governance Legislation

During 2006, Canadian securities regulators passed legislation requiring independent oversight over the management of Canadian investment funds. National Instrument 81-107 Independent Review Committee for Investment Funds ("NI 81-107") came into effect on November 1, 2006. Under NI 81-107, an Independent Review Committee ("IRC") is required to be established by May 1, 2007. The main responsibility of the IRC is to govern over perceived conflicts of interest between investment funds, their managers and related third parties. Policies and procedures are to be adopted no later than November 1, 2007 and investment funds must be in full compliance of NI 81-107 at that time. Series S-1 continues to research and develop its IRC and expects to meet each implementation date requirement.



New CICA Financial Instrument Standard

The Canadian Institute of Chartered Accountants has recently issued Section 3855, "Financial Instruments – Recognition and Measurement". Of importance to investment funds are new definitions and requirements for determining the fair value of financial instruments, particularly investments. Since current securities regulations require that investment funds calculate Net Asset Value ("NAV") in accordance with Generally Accepted Accounting Principles ("GAAP"), This new standard impacts the way in which net asset value is determined. For securities quoted on an open market, the new standard requires the use of bid prices for an asset held as opposed to the closing prices currently used. Bid prices are normally less than closing prices which will result in lower net asset values. Currently, transaction costs such as broker fees are added to the cost base of investments purchased and deducted from the proceeds of investments sold. The new standard requires that these costs be expensed. Although this does not affect the overall NAV, it will increase expenses and the management expense ratio. The new standard is effective January 1, 2007 for Series S-1. Canadian securities regulators have been granted relief from the requirement to calculate NAV for purposes other than financial statements in accordance with this standard, allowing them and investment fund managers the opportunity to further study the issue. This relief is in effect until the earlier of September 30, 2007 and the date on which legislation with respect to calculating NAV for purposes other than financial statements is changed. Until that time, Series S-1 intends to calculate NAV under the old method, specifically using closing rather than bid prices, for all purposes other than financial statements.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom.

RELATED PARTY TRANSACTIONS

Citadel Series Management Ltd. is the administrator of Series S-1, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund, payable in cash or in units, monthly in arrears. Effective June 1, 2006, these fees were paid in cash rather than units of the Fund. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance. This information is derived from the Fund's audited annual financial statements for each year in the period for inception to December 31, 2006.

Net Asset Value (NAV) per Unit

	2006	2005	2004	2003 ⁽¹⁾
NAV, beginning of year	\$ 11.17	\$ 11.14	\$ 10.57	\$ 9.45
Increase (decrease) from operations:				
Total revenue	1.00	0.95	0.93	0.54
Total expenses	(0.19)	(0.19)	(0.18)	(0.09)
Realized gains (losses)	(0.01)	0.28	0.22	0.02
Unrealized gains (losses)	(1.05)	(0.13)	0.51	1.04
Total increase (decrease) from operations	(0.25)	0.91	1.48	1.51
Distributions:				
From net investment income	0.86	0.88	0.87	0.38
From capital gains	–	0.02	0.03	–
Return of capital	0.04	–	–	–
Total cash distributions	0.90	0.90	0.90	0.38
NAV, end of year	\$ 10.04	\$ 11.17	\$ 11.14	\$ 10.57

⁽¹⁾ The Fund commenced operations on June 12, 2003.

Net asset value ("NAV") and cash distributions are based on the actual number of units outstanding at the time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAV since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

Ratios and Supplemental Data

	2006	2005	2004	2003
Net assets (\$000's)	\$ 335,133	\$ 386,544	\$ 389,920	\$ 365,723
Number of units outstanding	33,382,535	34,619,699	34,990,842	34,609,751
Management expense ratio	1.71%	1.74%	1.75%	1.64%
Portfolio turnover ratio	32.65%	22.11%	10.68%	6.57%
Trading expense ratio	0.10%	0.09%	0.03%	0.08%
Closing market price	\$ 8.80	\$ 10.53	\$ 11.40	\$ 10.65

Management expense ratio is based on total expenses for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value. The portfolio turnover rate indicates how actively the Fund's investment manager manages the portfolio investments. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Trading expense ratio represents total commissions expressed as an annualized percentage of weekly average net assets during the period.

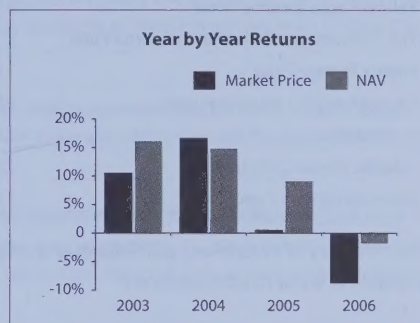
MANAGEMENT FEES

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund, payable in units or in cash monthly in arrears. Effective June 1, 2006, these fees were paid in cash rather than units of the Fund. Bloom Investment Counsel, Inc., as investment manager to the Fund, provides investment management services to the Fund in exchange for its share of the management fee. These fees represent payment for the administrative and investment management services provided to the Fund.

PAST PERFORMANCE

Series S-1's performance numbers represent the annual compound total returns over the period from inception in June 2003 to December 31, 2006 (except for returns of less than one year which are compound total returns). Total returns are based upon the Fund's change in market price plus the reinvestment of all distributions in additional units of the Fund.

Returns do not take into account sales, redemptions or income taxes payable that would have reduced returns. Past performance of the Fund does not necessarily indicate how it will perform in the future.



ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for Series S-1 based on market price and net asset value with comparison to the S&P/TSX Capped Income Trust Index for the periods indicated to December 31, 2006.

	1 Year	3 Year	Since inception
Series S-1 (market price)	(8.70%)	2.28%	4.83%
Series S-1 (net asset value)	(1.80%)	7.14%	10.54%
S&P/TSX Capped Income Trust Index	(2.85%)	17.30%	21.32%

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2006

Net Assets: \$335,132,606

Portfolio by Sector	% of Net Assets
Ongoing Business Trusts	29.6%
Power Generation Investments	22.8%
Real Estate Investment Trusts	15.8%
Oil & Gas Royalty Trusts	14.4%
Pipeline / Energy Investments	13.2%
Cash and Term Deposits	4.2%
Total Net Assets	100.0%

TOP 25 HOLDINGS (as a % of net assets)

Dundee Reit	5.3%	Bell Aliant Regional Comm. Inc. Fd.	2.4%
Fort Chicago Energy Partners L.P.	5.1%	Arctic Glacier Income Fund	2.2%
Boralex Power Income Fund	4.3%	Northland Power Income Fund	2.2%
Inter Pipeline Fund	4.3%	H&R Reit	2.2%
TransAlta Power L.P.	4.2%	Bonavista Energy Trust	2.1%
Algonquin Power Income Fund	3.9%	Epcor Power L.P.	2.1%
Yellow Pages Income Fund	3.2%	Riocan Reit	2.0%
The Consumers' Waterheater Income Fund	3.1%	Medical Facilities Corp.	1.9%
Baytex Energy Trust	3.0%	Canetic Resources Trust	1.9%
Keyera Facilities Income Fund	3.0%	Paramount Energy Trust	1.9%
InnVest Reit	2.9%	Innergex Power Income Fund	1.8%
Atlantic Power Corporation	2.9%	Firm Capital Mortgage Investment Tr.	1.8%
Noranda Income Fund	2.8%		

The summary of investment portfolio may change due to ongoing portfolio transactions. Quarterly updates are available at www.citadelfunds.com.

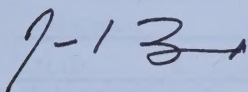
Management's Responsibility Statement

The financial statements of Series S-1 Income Fund have been prepared by Citadel Series Management Ltd. ("SML") and approved by the Board of Directors of SML. SML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

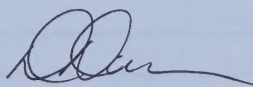
SML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of SML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of SML and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall
Chief Executive Officer
Citadel Series Management Ltd.
March 20, 2007



Darren K. Duncan
Chief Financial Officer
Citadel Series Management Ltd.

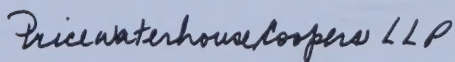
Auditors' Report to Unitholders

To the Unitholders of Series S-1 Income Fund

We have audited the statements of net assets and investments of Series S-1 Income Fund as at December 31, 2006 and 2005, and the statements of operations and changes in net assets for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2006 and 2005 and the results of its operations and the changes in its net assets for the years ended December 31, 2006 and 2005 in accordance with Canadian generally accepted accounting principles.



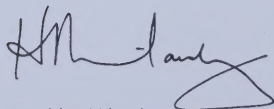
Chartered Accountants
Calgary, Alberta
March 20, 2007

Statement of Net Assets

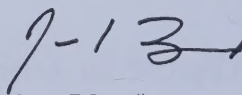
As at December 31,	2006	2005
Assets		
Investments, at market	\$ 321,356,633	\$ 379,494,727
Cash and term deposits	13,907,686	6,950,563
Revenue receivable	3,024,127	2,912,260
Prepaid expenses	29,840	29,904
Accounts receivable	–	175,944
	338,318,286	389,563,398
Liabilities		
Accounts payable and accrued liabilities	500,233	380,817
Payable for investments purchased	181,757	42,221
Distributions payable	2,503,690	2,596,477
	3,185,680	3,019,515
Net Assets representing Unitholders' Equity	\$ 335,132,606	\$ 386,543,883
Units outstanding (note 3)	33,382,535	34,619,699
Net asset value per unit	\$ 10.04	\$ 11.17

see accompanying notes

Signed on behalf of the Board,



Harold P. Milavsky
Chairman of the Board



James T. Bruvall
Director and Chief Executive Officer

Statement of Operations

For the years ended December 31	2006	2005
Revenue		
Distribution income	\$ 32,933,089	\$ 32,586,867
Interest income	1,134,742	736,126
Securities lending income	45,436	—
	34,113,267	33,322,993
Expenses		
Administrative and investment manager fees (note 4)	4,355,350	4,588,173
Trailer fee (note 5)	1,457,204	1,570,474
General and administration costs	264,272	346,847
Reporting costs	84,536	67,879
Directors' fees	72,773	83,125
Custodial fees	33,804	35,643
Audit fees	22,890	23,906
Trustee fees	20,687	20,302
Legal fees	16,574	7,582
	6,328,090	6,743,931
Net investment income	27,785,177	26,579,062
Net realized gain (loss) on sale of investments (note 6)	(495,072)	9,658,478
Net change in unrealized gain (loss) on investments	(35,713,280)	(4,622,625)
Total results of operations	\$ (8,423,175)	\$ 31,614,915
Results of operations per unit ⁽¹⁾		
Net investment income	\$ 0.81	\$ 0.76
Net realized gain (loss) on sale of investments	(0.01)	0.28
Net change in unrealized gain (loss) on investments	(1.05)	(0.13)
	\$ (0.25)	\$ 0.91

⁽¹⁾ Based on the weighted average number of units outstanding.
see accompanying notes

Statement of Changes in Net Assets

For the years ended December 31	2006	2005
Net Assets – beginning of year	\$ 386,543,883	\$ 389,920,260
Operations:		
Net investment income	27,785,177	26,579,062
Net realized gain (loss) on sale of investments	(495,072)	9,658,478
Net change in unrealized gain (loss) on investments	(35,713,280)	(4,622,625)
	(8,423,175)	31,614,915
Unitholder Transactions:		
Issuance of trust units, net	2,941,789	5,788,666
Repurchase of trust units	(15,334,858)	(9,364,358)
	(12,393,069)	(3,575,692)
Distributions to Unitholders: (note 7)		
From net investment income	(29,365,020)	(30,929,561)
From capital gains	–	(486,039)
Return of capital	(1,230,013)	–
	(30,595,033)	(31,415,600)
Net Assets – end of year	\$ 335,132,606	\$ 386,543,883
Distributions per unit	\$ 0.90	\$ 0.90

see accompanying notes

Statement of Investments

	December 31, 2006				December 31, 2005			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
Ongoing Business Trusts								
ACS Media Income Fund	–	\$ –	\$ –	–	680,000	\$ 6,391,700	\$ 6,086,000	–
Amtelecom Income Fund	475,000	5,249,225	5,272,500	–	475,000	5,249,225	6,151,250	–
Arctic Glacier Income Fund	590,000	5,718,069	7,386,800	–	590,000	5,718,069	6,372,000	–
Bell Aliant Regional Comm Income Fund	300,000	9,131,261	8,088,000	–	–	–	–	–
Bell Nordiq Income Fund	–	–	–	–	168,268	2,137,105	2,995,170	–
CML Healthcare Income Fund	–	–	–	–	600,000	6,784,000	8,640,000	–
Chemtrade Logistics Income Fund	700,000	9,710,102	5,635,000	–	496,100	7,491,715	5,303,309	–
Clearwater Seafoods Income Fund	–	–	–	–	600,000	7,461,912	2,250,000	–
The Consumers' Waterheater Income Fund	776,500	10,264,549	10,420,630	–	600,000	7,892,866	9,390,000	–
Custom Direct Income Fund	700,000	7,000,000	5,236,000	–	700,000	7,000,000	6,895,000	–
KCP Income Fund	600,000	7,128,183	4,464,000	–	600,000	7,128,183	5,520,000	–
Medical Facilities Corp.	700,000	6,274,697	6,300,000	–	–	–	–	–
New Flyer Industries Inc.	487,800	4,426,416	4,478,004	–	–	–	–	–
Noranda Income Fund	967,600	9,621,606	9,530,860	–	1,400,000	13,964,709	16,730,000	–
Rogers Sugar Income Fund	1,525,000	6,204,798	5,612,000	–	1,400,000	5,799,821	5,180,000	–
Royal LePage Franchise Facilities Fund	400,000	4,000,000	5,340,000	–	755,000	7,550,000	9,890,500	–
Royal Utilities Income Fund	152,300	1,523,000	1,728,605	–	–	–	–	–
Student Transport of America Inc.	–	–	–	–	650,000	7,007,000	8,366,482	–
Sun Gro Horticulture Income Fund	600,000	4,846,342	4,206,000	–	600,000	4,846,342	4,050,000	–
Teranet Income Fund	564,700	5,813,520	5,020,183	–	–	–	–	–
Yellow Pages Income Fund	820,000	9,439,274	10,553,400	–	1,000,000	11,511,310	16,300,000	–
		106,351,042	99,271,982	29.6%		113,933,957	120,119,711	31.0%

(continued on following page)

	December 31, 2006				December 31, 2005			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
<i>(continued from previous page)</i>								
Power Generation Investments								
Algonquin Power Income Fund	1,300,000	12,500,341	12,909,000		1,234,723	11,807,752	12,902,855	
Atlantic Power Corporation	850,000	8,559,287	9,596,500		750,000	7,611,387	7,800,000	
Boralex Power Income Fund	1,550,000	15,462,519	14,539,000		1,100,000	11,260,019	11,022,000	
Clean Power Income Fund	—	—	—		1,217,700	12,211,387	5,418,765	
Countryside Power Income Fund	698,400	6,796,765	4,853,880		900,000	8,702,848	7,947,000	
Epcor Power L.P.	260,000	8,789,320	6,955,000		170,000	5,742,940	5,992,500	
Innergex Power Income Fund	454,000	4,762,562	6,020,040		435,000	4,505,494	5,742,000	
Northland Power Income Fund	554,300	6,421,936	7,244,701		425,000	4,871,328	6,336,750	
TransAlta Power L.P.	1,902,100	17,426,317	14,208,687		1,902,100	17,426,317	18,640,580	
		80,719,047	76,326,808	22.8%		84,139,472	81,802,450	21.2%
Oil & Gas Royalty Trusts								
Acclaim Energy Trust	—	—	—		450,000	5,025,884	8,527,500	
ARC Energy Trust	110,500	2,484,261	2,464,150		340,000	4,275,249	9,006,600	
Baytex Energy Trust	450,000	5,950,439	10,026,000		450,000	5,950,439	7,965,000	
Bonavista Energy Trust	250,000	6,977,500	7,037,500		—	—	—	
Canetic Resources Trust	378,000	6,330,818	6,214,320		—	—	—	
Crescent Point Energy Trust	300,000	5,025,000	5,280,000		—	—	—	
Enerplus Resources Fund	100,000	3,082,407	5,068,000		135,000	4,161,249	7,541,100	
Esprit Energy Trust	—	—	—		520,000	5,969,600	6,999,200	
NAL Oil & Gas Trust	480,000	6,512,100	5,908,800		480,000	6,512,100	8,678,400	
Paramount Energy Trust	500,000	6,674,775	6,200,000		275,000	3,520,275	6,096,750	
Petrofund Energy Trust	—	—	—		325,000	3,826,909	6,659,250	
Viking Energy Royalty Trust	—	—	—		900,000	6,318,630	8,280,000	
		43,037,300	48,198,770	14.4%		45,560,335	69,753,800	18.0%
Pipeline/Energy Investments								
Fort Chicago Energy Partners L.P.	1,500,400	17,859,548	17,209,588		1,000,000	11,922,657	11,990,000	
Inter Pipeline Fund	1,600,000	10,448,884	14,464,000		1,709,860	11,046,292	17,184,093	
Keyera Facilities Income Fund	600,000	6,731,316	9,984,000		679,100	7,618,728	14,770,425	
Superior Plus Income Fund	250,000	4,755,392	2,677,500		560,000	11,864,535	13,160,000	
		39,795,140	44,335,088	13.2%		42,452,212	57,104,518	14.8%
Real Estate Investment Trusts								
Dundee Reit	462,300	9,887,115	17,867,895		507,400	10,851,659	13,040,180	
Extendicare Reit	400,000	5,986,118	5,812,000		—	—	—	
Firm Capital Mortgage Inv. Trust	568,200	6,013,775	5,937,690		460,020	4,895,558	4,959,016	
H&R Reit	300,000	6,216,153	7,227,000		300,000	6,219,600	6,240,000	
InnVest Reit	700,000	6,762,342	9,660,000		585,800	5,264,206	7,345,932	
Retirement Residences Reit	—	—	—		1,400,000	13,459,164	12,250,000	
Riocan Reit	260,000	3,615,415	6,539,000		300,000	4,171,632	6,837,000	
		38,480,918	53,043,585	15.8%		44,861,819	50,672,128	13.1%
Series S-1 units – repurchased for cancellation	20,500	181,757	180,400	0.1%	4,000	42,224	42,120	0.1%
Investments								
		308,565,204	321,356,633	95.9%		330,990,019	379,494,727	98.2%
Cash and Term Deposits								
		13,907,686	13,907,686	4.1%		6,950,563	6,950,563	1.8%
Total		\$ 322,472,890	\$ 335,264,319	100.0%		\$ 337,940,582	\$ 386,445,290	100.0%

All portfolio holdings are trust units, except the following: Student Transport of America Inc., Medical Facilities Corp. and Atlantic Power Corporation – income participating securities; New Flyer Industries Inc. – income deposit security; Epcor Power L.P., TransAlta Power L.P. – limited partnership units; Fort Chicago Energy Partners L.P. and Inter Pipeline Fund – Class A limited partnership units.

Notes to Financial Statements

December 31, 2006 and 2005

1. STRUCTURE OF THE FUND

Series S-1 Income Fund (the "Fund" or "Series S-1") is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of April 17, 2003 and amended June 12, 2003. The Fund commenced operations upon completion of its initial public offering on June 12, 2003. The term of the Fund continues until December 31, 2009 in accordance with the provisions of the Fund's Declaration of Trust.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

(a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers' acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada). As all taxable income was allocated to the unitholders in 2006 and 2005, no provision for income taxes has been made in these financial statements.

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

(e) Financial instruments

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, revenue receivable, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, payable for investments purchased and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	December 31, 2006		December 31, 2005	
	Number	Amount	Number	Amount
Trust units – beginning of year	34,619,699	\$ 327,607,467	34,990,842	\$ 331,183,159
Issued for services (note 4)	147,134	1,551,204	406,613	4,350,499
Issued under DRIP	138,002	1,390,585	130,144	1,438,167
Repurchase of trust units	(1,522,300)	(15,334,858)	(907,900)	(9,364,358)
Trust units – end of year	33,382,535	\$ 315,214,398	34,619,699	\$ 327,607,467

The weighted average number of units outstanding for the year ended December 31, 2006 was 34,094,482 units (2005 – 34,935,216 units).

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. For the year ended December 31, 2006, Series repurchased 1,522,300 trust units under this program at an average cost of \$10.07 per unit (2005 – 907,900 units at an average cost of \$10.31 per unit).

Unitholders of Series S-1 can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of Series S-1 at the 5 day weighted average market price of the Fund's units. For the year ended December 31, 2006, 138,002 units (2005 – 130,144 units) were issued under the DRIP.

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES/DIRECTORS' FEES

Citadel Series Management Ltd. ("SML") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, total annual administrative and investment management fees are based upon 1.1% of the aggregate average weekly net asset value of the Fund, payable in units or cash monthly in arrears. Effective June 1, 2006, the Fund commenced paying these fees in cash. For the year ended December 31, 2006, the Fund issued 147,134 trust units and paid cash fees of \$2,804,146 for a total expense of \$4,355,350 in respect of the administrative and investment management fees during the year (2005 – 400,896 units and an expense of \$4,588,173). The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2006, included in accounts payable were amounts owed from SML of \$4,432 (2005 – \$175,944 included in accounts receivable).

Directors of SML received a total of \$62,500 cash in 2006 (2005 – 5,717 units) as payment for their annual retainers.

5. TRAILER FEE

Series S-1 pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. For the year ended December 31, 2006, the Fund recorded an expense of \$1,457,204 (2005 – \$1,570,474) relating to the trailer fee.

6. INVESTMENTS

The net realized gain (loss) on the sale of investments was determined as follows:

For the years ended December 31	2006	2005
Net proceeds from the sale of securities	\$ 144,041,765	\$ 86,571,410
Less cost of securities sold:		
Investments at cost – beginning of year	330,990,019	305,015,654
Investments purchased during year	122,112,022	102,887,297
Investments at cost – end of year	(308,565,204)	(330,990,019)
Cost of investments disposed of during year	144,536,837	76,912,932
Net realized gain (loss) on sale of investments	\$ (495,072)	\$ 9,658,478

7. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions based upon investment income received by the Fund less estimated expenses. For the years ended December 31, 2006 and 2005, the Fund also distributed a portion of its realized gains and/or return of capital in order to supplement its distributions.

For the years ended December 31	2006	2005
Net investment income for the year	\$ 27,785,177	\$ 26,579,062
Add fees paid by issuance of units	1,579,843	4,350,499
Capital distributed (cash flow retained)	1,230,013	486,039
Cash distributions	\$ 30,595,033	\$ 31,415,600
Cash distributions per unit	\$ 0.90	\$ 0.90

8. BROKER COMMISSIONS

The Fund paid commissions to brokers of \$369,433 for the year ended December 31, 2006 (2005 – \$337,698) and they are recorded in the purchase and sale of investments.

9. SECURITIES LENDING

The Fund engaged in securities lending during 2006 and as at December 31, 2006, the Fund had lent out \$34.0 million of its portfolio securities with \$36.6 million of collateral in primarily federal and provincial bonds.

Corporate Information

Administrators

Citadel Diversified Management Ltd.
Citadel S1 Management Ltd.
Citadel TEF Management Ltd.
Citadel CPRT Management Ltd.
Citadel Series Management Ltd.
Equity Lift Management Ltd.
N.A. Energy Management Inc.
Stable Yield Management Inc.
Sustainable PE Management Inc.
Equal Weight Management Ltd.
CGF Funds Management Ltd.
CGF Resource FT Funds Management Ltd.
Suite 3500, 350 - 7th Avenue S.W.
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Telephone: (403) 261-9674
Toll Free: 1 877 261-9674
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Website: www.citadelfunds.com
Email: info@citadelfunds.com

Investment Manager

(CTD.un, SDL.un, CHF.un, CRT.un,
SRC.un and CSR.un)
Bloom Investment Counsel, Inc.
Suite 1710, 150 York Street
Toronto, Ontario M5H 3S5

Investment Manager

(EPF.un, SPU.un and CGF Resource 2006)
Galileo Equity Management Inc.
161 Bay Street, Suite 4730
Toronto, Ontario M5J 2S1

Investment Manager

(CPF.un)
Fiera YMG Capital Inc.
1501 McGill College Avenue, Suite 900
Montreal, Quebec H3A 3M8

Rebalancing Advisor

(IEP.un, EQW.un and FPR.pr.a)
Shaunessy Investment Counsel Inc.
Suite 504, 933-17th Avenue S.W.
Calgary, Alberta T2T 5R6

Directors and Officers

Harold P. Milavsky - Chairman of the Board
Micheline Bouchard - Director
Doug D. Baldwin - Director
Kent J. MacIntyre - Director
James T. Bruvall - Director and Chief Executive Officer
Darren K. Duncan - Chief Financial Officer

Trustee

Computershare Trust Company of Canada
Sixth Floor
530 - 8th Avenue S.W.
Calgary, Alberta T2P 3S8

Custodian

CIBC Mellon Global Securities Services Company
320 Bay Street, 6th Floor
Toronto, Ontario M5H 4A6

Legal Counsel

Stikeman Elliott LLP
4300 Bankers Hall West
888 - 3rd Street S.W.
Calgary, Alberta T2P 5C5

Auditors

PricewaterhouseCoopers LLP
3100, 111 - 5th Avenue S.W.
Calgary, Alberta T2P 5L3

Stock Exchange Listings

The Toronto Stock Exchange
Citadel Diversified Investment Trust units: **CTD.un**
Citadel S-1 Income Trust Fund units: **SDL.un**
Citadel HYTES Fund units: **CHF.un**
Citadel SMaRT Fund units: **CRT.un**
Citadel Premium Income Fund units: **CPF.un**
Series S-1 Income Fund units: **SRC.un**
Income & Equity Index Participation Fund units: **IEP.un**
Energy Plus Income Trust units: **EPF.un**
Citadel Stable S-1 Income Fund units: **CSR.un**
Sustainable Production Energy Trust units: **SPU.un**
Equal Weight Plus Fund units: **EQW.un**
Financial Preferred Securities Corporation shares: **FPR.pr.a**
CGF Resource 2006 Flow-Through Limited Partnership units: not listed



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